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## Fifth Committee

**Summary record of the 41st meeting**
Held at Headquarters, New York, on Wednesday, 14 March 2007 at 10 a.m.

*Chairman*: Mr. Yousfi ..... (Algeria)
*Chairman of the Advisory Committee on Administrative and Budgetary Questions*: Mr. Saha

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*The meeting was called to order at 10.10 a.m.*

**Agenda item 117: Programme budget for the biennium 2006-2007 (*continued*)**

*Liabilities and proposed funding for after-service health insurance benefits* (A/61/730 and A/61/791)

1. **Mr. Sach** (Controller) introduced the report of the Secretary-General on liabilities and proposed funding for after-service health insurance benefits (A/61/730). As requested in section III of General Assembly resolution 60/255, the current report supplemented information provided in an earlier report of the Secretary-General (A/60/450 and Corr.1). In accordance with the resolution, the after-service health insurance liability would be reflected in the 2006-2007 financial statements. The current report recommended that the United Nations should initiate an after-service health insurance funding strategy aimed at fully funding the after-service health insurance programme within 12 to 15 bienniums.

2. It was common for Member States to provide after-service health protection for national civil servants and members of their families. As most United Nations staff were not entitled to that social benefit by virtue of working for the United Nations, the General Assembly, in 1966, had decided to extend health insurance coverage to retirees and those who separated for reasons of disability. Accordingly, the after-service health insurance programme had been established in 1967. Health insurance protection for staff and retirees continued to be an important component of overall conditions of service.

3. As noted in the report (A/61/730, para. 17), the health insurance protection offered under the United Nations plans was comparable to that offered by other large employers and government entities.

4. The after-service health insurance programme and the United Nations Joint Staff Pension Fund, while enjoying a number of similarities, differed significantly in the way in which they were accounted for and funded. In contrast to the Pension Fund, the Organization's share of after-service health insurance costs was accounted and provided for on a pay-as-you-go basis, with expenditures based on annual payment requirements for current retirees. Funds for the Organization's share were appropriated on a biennial basis in the programme budget. However, the pay-as-you-go approach — used by most organizations with after-service health insurance programmes — was no longer sustainable given the ongoing growth in costs due to an increasing population of participants and current demographic and medical trends. A number of organizations had, therefore, started funding such liabilities as they accrued.

5. The accrued liability for after-service health insurance benefits was conceptually similar to the accrued liability for pension benefits. The liability was calculated by a consulting actuary at the end of each biennium, using actuarial assumptions aligned with those used for the Pension Fund and using the projected unit credit method for valuing benefits, as required under the International Public Sector Accounting Standards (IPSAS).

6. When after-service health insurance liabilities had first been disclosed in 1995, there had been about 3,400 enrollees, the Organization's biennial cost had been about $28.7 million and the accrued liability had been actuarially determined to be $786.8 million. By the end of 2005, those numbers had grown and the after-service health insurance programme now covered over 7,800 enrollees, with a 2006-2007 biennial budget of $102.7 million and an actuarially calculated accrued liability of $2,072.8 million. Those trends were expected to continue. After-service health insurance costs to the Organization were expected to grow by 15 to 20 per cent each biennium. Projecting 25 years into the future, it was anticipated that the after-service health insurance population would exceed 14,000 enrollees, with the 2030-2031 biennial budget requirements estimated at $666 million and after-service health insurance liabilities approaching $5 billion.

7. In 1995, a task force had recommended the adoption of an actuarially sound basis for tracking the future after-service health insurance obligations of the United Nations. The first step, taken that year, had been to initiate a process of biennial actuarial calculations of accrued liabilities. The second step had been the recognition by the General Assembly, in its resolution 60/255, of after-service health insurance liabilities, which were now treated on an accrual basis in the United Nations financial statements. It was now time to take the next step and adopt an actuarially sound funding strategy. A number of organizations in the United Nations common system had already begun

funding their after-service health insurance liability. The United Nations should do likewise.

8. Given the size of the after-service health insurance liabilities, full funding of the accrued liabilities for the United Nations could not be achieved in the short to intermediate term, but required a dedicated long-term funding strategy. Chapter V of the report set out five potential funding strategies. The first four funding alternatives resulted in either immediate full funding or projected full funding over a period of 24 to 30 years. The fifth alternative, the recommended option, was an updated version of the strategy proposed by the Secretary-General in his earlier report (A/60/450). Alternative 5 was a two-tiered funding approach aimed at initiating and progressively increasing the level of funding over the long term. It proposed a one-time initial infusion of $503.5 million plus systematic funding for the long term, consisting of predictable and flexible elements.

9. The figures given in the report were indicative. Periodic reviews would, therefore, be required to ensure that the funding was actuarially sound; to determine the impact that the utilization of savings, if any, would have on funding levels; and to determine to what extent a change in the rate chargeable against salaries would be needed to ensure that a systematic increase in funding levels was sustained and that full funding was ultimately achieved.

10. The establishment of an independently segregated after-service health insurance reserve fund would be required under each of the funding alternatives proposed. The report recommended the establishment of such a fund, with initial transfers being invested in short- to medium-term securities. A detailed investment strategy tailored to meet the longer term anticipated cash flow requirements of the fund would be developed and provided to the General Assembly, should the establishment of such a fund be authorized and a proposed funding mechanism approved.

11. The report also requested approval to put in place cost containment initiatives by imposing more restrictive eligibility requirements and changing the cost-sharing basis for new recruits, in particular by increasing the minimum period of service required for eligibility from 5 years to 10; introducing the application of a theoretical pension of a minimum of 25 years of service for those with less than 25; and introducing a minimum participation requirement for eligibility of dependants.

12. The report also recommended approving funding of after-service health insurance liabilities of the International Criminal Tribunal for the Former Yugoslavia, the International Criminal Tribunal for Rwanda and the United Nations Compensation Commission, with the aim of fully funding such liabilities prior to the closure of those offices.

13. The Secretary-General attached high importance to the after-service health insurance programme and, therefore, to the viability of its financial base. The short- and long-term funding strategies outlined in the report identified means for funding the related liabilities.

14. **Mr. Saha** (Chairman of the Advisory Committee on Administrative and Budgetary Questions), introducing the related report (A/61/791) of the Advisory Committee on Administrative and Budgetary Questions (ACABQ), said that the complex issue of after-service health insurance had been discussed for decades. The Advisory Committee requested the Committee to consider its report in detail, as it made a number of suggestions and recommendations for consideration by the General Assembly. He would focus on the main points only. Any questions raised by the Committee would be answered in informal consultations.

15. In section III of its resolution 60/255, the General Assembly had recognized the end-of-service accrued benefit liabilities reported by the Secretary-General and requested that he should take the necessary steps to disclose those liabilities in the United Nations financial statements. The Assembly had also requested the Secretary-General to submit a report at its sixty-first session giving further explanation of the after-service health insurance programme, addressing the issues raised by the Advisory Committee in its related report (A/60/7/Add.11) and providing updated information on the status of liabilities, clarifications with regard to the assumptions used to determine liabilities and alternative strategies to fund the liabilities. The current report of the Secretary-General (A/61/730) was in response to that report of ACABQ and the General Assembly's directive.

16. Paragraph 7 of the Advisory Committee's current report (A/61/791) outlined the five potential funding alternatives put forward by the Secretary-General. The

Secretary-General recommended alternative 5, which provided, inter alia, for a one-time infusion of $503.5 million.

17. Paragraph 9 discussed alternatives 1 and 2. In that connection, the Advisory Committee had asked the General Assembly to consider whether it wished to apportion the full cost to the regular budget, or whether to apportion costs to all funding sources that gave rise to costs for after-service health insurance liabilities.

18. Alternatives 3 and 5 put forward scenarios for full financing in 12 to 13 bienniums, in the former case without any immediate infusion of funds, and in the latter with an immediate infusion of $503.5 million (para. 11). In paragraph 12, the Advisory Committee recommended against making an exception to financial regulation 5.3 and was of the view that the balance of $410 million in unencumbered balances and savings on the cancellation of prior-period obligations under peacekeeping operations at the close of the financial period 2005-2006 should be returned to Member States. It had also explained the reasons for that recommendation. In paragraph 13, the Advisory Committee recommended the proposed transfer of $61.5 million from the medical and dental reserves and $32 million from the compensation reserve. Should the General Assembly approve that course of action, the estimated after-service health insurance liability would be correspondingly reduced.

19. The fourth alternative was discussed in paragraph 16 onwards. The Advisory Committee encouraged the Secretary-General to further develop his long-term investment strategy for after-service health insurance (para. 17) and recommended that the General Assembly should authorize the establishment of a separate special account for after-service health insurance funds (para. 18).

20. In paragraph 19, the Advisory Committee noted that, in his current report (A/61/730), the Secretary-General had resubmitted the proposals contained in his previous report (A/60/450), but with one revision. The Secretary-General was requested to provide the General Assembly with further information on the financial and other issues associated with that revision.

21. With regard to accrued unfunded liabilities relating to retirees from the United Nations Compensation Commission, the Advisory Committee recommended approval of the funding of after-service health insurance liabilities as a part of the winding-up costs of the Commission (para. 20).

22. Lastly, the Advisory Committee recommended that the measures proposed in the report of the Secretary-General regarding the funding of the after-service health insurance liabilities related to the International Criminal Tribunal for the former Yugoslavia and the International Criminal Tribunal for Rwanda (A/61/730, paras. 50 (d) and (e), respectively) should be duly considered in order to provide for those liabilities, recognizing the temporary nature of the Tribunals (para. 21).

23. **Mr. Thomma** (Germany), speaking on behalf of the European Union; the candidate countries Croatia, the former Yugoslav Republic of Macedonia and Turkey; the stabilization and association process countries Montenegro and Serbia; and, in addition, Iceland, Moldova and Ukraine, said that the European Union recognized the efforts of the Department of Management in delivering a breakdown of the after-service health insurance programme and the status of liabilities thereof, as requested in General Assembly resolution 60/255. The disclosure of such liabilities was a necessary condition for the application of International Public Sector Accounting Standards, even though the European Union understood that there was no legal obligation to fund them. Furthermore, the report of the Secretary-General (A/61/730) provided alternative strategies for funding the disclosed liabilities.

24. He conveyed his appreciation to ACABQ for its analysis of the status quo of the after-service health insurance programme and the recommendations presented in its report regarding the funding of liabilities. Noting the Advisory Committee's comment (A/61/791, para. 9) that there was no specific time frame within which the liabilities must be fully funded, he said that the European Union stood ready to discuss all practicable strategies aimed at addressing the issue. The European Union was willing to discuss the proposed modifications to requirements for eligibility for after-service health insurance benefits and the adjustments in the health insurance programme itself. Such modifications would reduce future liabilities and align the system more with those of other United Nations entities. Member States and the Secretary-General had a shared responsibility to establish provisions for new staff, in order to avoid creating new unfunded liabilities.

25. After-service health insurance benefits were not only a liability, but also an asset of the United Nations staff. The European Union stood ready to assume its shared responsibility for United Nations staff with regard to such benefits.

26. **Mr. Hussain** (Pakistan), speaking on behalf of the Group of 77 and China, said that the Group of 77 and China attached great importance to the issue under consideration. After-service health insurance costs were common staff costs and their recognition as such was common international practice. As noted in the Secretary-General's report (para. 17), many retiring staff members could not benefit from the national social security schemes of Member States owing to their service with the United Nations. The Group was sympathetic to the issue of post-retirement health insurance benefits for all United Nations staff. It was in that spirit that it had participated in related discussions in the past.

27. Noting that the Secretary-General had submitted his report (A/61/730) in accordance with the request by the General Assembly for updated information on the status of liabilities, clarifications with regard to the assumptions used to determine liabilities and alternative strategies to fund the liabilities, he said that, given the significance and complexity of the issue, many questions still needed to be clarified with regard to specific data and accrual methods, an appropriate funding mechanism and practices followed by other United Nations entities, inter alia. The related report of the Advisory Committee (A/61/791) provided a good basis for discussion.

28. The issue of after-service health insurance liabilities had long-term implications for both Member States and United Nations staff. A comprehensive and long-term solution was needed. The Group would participate in consultations on the item in a constructive manner, bearing in mind the significance of the implications of after-service health insurance, particularly in the context of the introduction of International Public Sector Accounting Standards for the United Nations system with effect from 2010.

29. **Mr. Chando** (Malawi), speaking on behalf of the African Group, assured the Committee of the Group's support and cooperation on the issue, which concerned conditions of service and was a vital element of social security for retired staff members. He supported the view that the after-service health insurance benefits of United Nations staff members should be in line with those of the staff members of other international organizations. In that regard, he noted that the Organization's liabilities and participants' benefits had been determined by following internationally accepted accounting standards and had been compared with other major organizations and Governments. The Group would nonetheless seek clarification, particularly regarding the technical concepts of the valuation methodology, in order to better understand the accrued liabilities.

30. The Group was aware that liabilities would continue to accumulate as long as the matter remained in abeyance. However, it was prudent to discuss the circumstances that had led to the accumulation of the Organization's liabilities and avoid a recurrence. The Group would appreciate clarification of those issues, including those raised in section III of resolution 60/255, in informal consultations, in order to facilitate a speedy solution. The Group had taken note of the proposals and recommendations of the Secretary-General and the observations of ACABQ and looked forward to discussing them in informal consultations.

31. **Mr. Kozaki** (Japan) said that, given the huge present and future financial implications of the issue for both Member States and the Organization, there was a need for absolute clarity on the rationale behind the need to fund such estimated liabilities and the justification for the proposed funding strategy put forward by the Secretary-General. Without such clarity, his delegation would not be in a position to take a decision. His delegation would also appreciate detailed information regarding the administrative and budgetary implications of the introduction of International Public Sector Accounting Standards by 2010, including the costing of staff-related expenditures and its implication for the proposed programme budget for 2008-2009. It was important to understand what was required by IPSAS and what was required from the point of view of prudent financial management.

32. His delegation agreed with the Advisory Committee's observation (A/61/791, para. 6) that IPSAS required the disclosure of after-service health insurance liabilities. However, IPSAS itself did not require the full and immediate funding of an estimated after-service health insurance liability. His delegation was not convinced that full funding was an absolute requirement of IPSAS, given that the United Nations

could apportion the Organization's expenses among the entire membership.

33. Furthermore, his delegation was not convinced that the framework of 12 to 13 bienniums envisaged by the Secretary-General for fully funding liabilities constituted a reasonable planning horizon (A/61/791, para. 9), when there was no specific time frame within which the liabilities must be fully funded. His delegation was also unsure whether a clear distinction had been made between liabilities as such, potential liabilities and actuarially estimated liabilities. His delegation also wondered whether the accrual method of accounting required the full funding of actuarially estimated after-service health insurance liabilities, including those of staff members who did not meet the eligibility requirements set out in the Administrative Instruction on after-service health insurance dated 19 May 1994 (ST/AI/394) and in respect of whom the Organization was not yet obliged to pay for after-service health insurance liabilities. It also wondered whether it was necessary from the viewpoint of the prudent financial management of the Organization.

34. On the issue of funding after-service health insurance liabilities using resources from peacekeeping budgets, he said that after-service health insurance liabilities, if funded at all, should be funded from all sources in an appropriate and proportionate manner, taking into account that such liabilities related not only to the regular budget, but also to the budgets of the Tribunals and peacekeeping missions. The Advisory Committee rightly recognized (A/61/791, para. 12) that peacekeeping missions, particularly active ones, should fund their share of the costs of after-service health insurance, as well as the accrued liability attributable to them.

35. His delegation also agreed with the Advisory Committee (para. 12) that the transfer of unencumbered balances to entirely alternate uses was an inappropriate financial management practice. However, the use of some unencumbered balances to fund the after-service health insurance liabilities attributable to active peacekeeping missions — at least for the fiscal year 2005/06 — did not necessarily constitute an entirely alternate use or an inappropriate financial management practice and could therefore be justified.

36. Lastly, it was not clear from the Secretary-General's proposals how he wished to deal with after-service health insurance liabilities in the context of the International Criminal Tribunal for the Former Yugoslavia and the International Criminal Tribunal for Rwanda, given their mandated closure at the end of 2010.

37. **Mr. Potts** (United States of America) said that his delegation supported efforts by the United Nations to address after-service health insurance in a thoughtful and responsible manner. Caring for its staff, many of whom had served in difficult and perilous spots across the globe, should be high on the Committee's agenda. The United States would work with other Member States to find a lasting and cost-effective solution.

38. Because the costs were significant, it was imperative that the issue should be addressed thoughtfully. A serious review and discussion of the Secretary-General's proposed plan was needed. Note must also be taken of the Advisory Committee's recommendation (A/61/791, para. 9) that the after-service health insurance liability could be addressed within the framework of 12 to 13 bienniums without undermining the commitment by the United Nations to follow International Public Sector Accounting Standards.

39. Lastly, his delegation wished to hear more about the proposal, under alternative 5, to tap funds from medical and dental reserves and the compensation fund (A/61/730, para. 31) and about the way in which other United Nations system entities were addressing after-service health insurance, including any pitfalls of staying with a pay-as-you-go system.

*The meeting rose at 10.45 a.m.*